

City of Mesa
Deferred Compensation Committee
MEETING MINUTES
Monday, May 5, 2014, 11:30am
Mesa City Plaza, Suite 130
Personnel Conference Room 2

Members Present:

Mike Kennington (Chair)
Derek Witting
Don Miller
Mary Dellai
Michele Long
Vicki Eden

Members Absent:

Frank Hoglund
Kimberly Call
Michael Claspell

Innovest:

Gordon Tewell
Jerry Huggins

Great West:

Scott Taylor
Lisa Tilley

Other(s):

Bill Taebel
Nikki Rosales

Meeting called to order at 11:30am by Mike Kennington

1. Approval of the February 3, 2014 minutes

Mary motioned to approve the minutes
Don seconded the motion
None opposed

2. Innovest Quarterly Update

The Markets

There was a fair amount of volatility throughout the quarter. An extremely cold winter slowed economic activity and there was some concern in the global growth area. The quarter ended with Barclays US Aggregate Bond at 1.84% and S&P 500 at 1.81%. Russell 2000 followed at 1.12% for small cap stock and international stocks were at 0.66%.

Quarterly Market Summary

The markets are showing some positive ground, but nothing too strong. The bond index is getting better. REITs had a great quarter. In the U.S. market, healthcare and utilities were up for the quarter. Consumer discretionary and industrials were up for the year, but down for the quarter. The market environment is very different from what we have seen recently. The best place to be in the bond market is high yield bonds. Emerging economies continue to struggle, but there may be some opportunity here as we look forward.

Annual Fee Review

The fee review was not updated this quarter. At the next meeting, the figures will be updated showing the 2nd quarter and plan assets, as of the end of June.

Asset Allocation

There were no significant changes this quarter. Jerry pointed out that there are about 1% of total assets in the Schwab Money Market Fund. Scott said that he would look at the number of people in this fund, but most have large assets. The total asset allocation funds are just over 18%, which includes custom models, as well as target date funds. The Mesa total funds went up about \$2.3 million this quarter, or about 1.46%. This increase consists of all cash flow, including contributions and deductions.

Table of Returns

Most of the large cap equity funds underperformed their benchmarks for the quarter. Both growth managers had a tough quarter. Aston Montag & Caldwell Growth ranked in the bottom 10% of large cap growth managers and MainStay Large Cap Growth ranked in the bottom 13% of managers. The value managers performed very well against both the benchmark and peers. Dodge & Cox Stock ranked in the top 3% of managers for the year. On the mid cap side, Artisan ranked in the top 25% of midcap growth managers. On the small cap side, Kalmar underperformed significantly compared to its benchmark and ranked in the bottom 2% of small cap growth managers. The international equity funds had good performance over the last 12 months, but mixed performance over the last quarter. Oppenheimer Global underperformed the benchmark and peers, but still had a positive absolute performance. PIMCO struggled and ranked in the bottom 10% of core fixed income managers. ING Global Real Estate Fund is changing its name to Voya Global Real Estate. They underperformed the index, but ranked in the top 34% of global real estate managers for the 1-year period. JPMorgan is right in line with its peers on the high yield side. The Mesa/Great West Custom Stable Value Fund dipped below the median manager this year and its crediting rate dropped this last quarter, but the 1-year return ranked it in the top 10 percentile, so it is still one of the best stable value fund managers. The target date funds with a retirement date of 2015 and earlier outperformed the index for the quarter. The remaining target date funds underperformed for the quarter, but all of them performed above the benchmark for the 1-year period. All custom model portfolios underperformed the benchmark for the quarter, but outperformed for the year.

Manager Scorecard

	Organization	People	Philosophy & Process	Style Consistency	Asset Base	Performance	Expense	Overall
Fidelity Contrafund					Minor concern			
Aston: M&C Growth						Major concern		
Mainstay; Lg Cap Growth	Minor concern	Minor concern						
Artisan: Mid Cap					Minor concern			
J Hancock III	Minor concern							
American Funds EuPc					Minor concern			
ING: Gbl RE	Minor concern					Minor concern		Minor concern
PIMCO Total Return	Minor concern							
Mesa/GW Custom Stable Value			Minor concern					

■ Minor concern
■ Major concern

- **Mainstay Large Cap Growth** – it was announced in April that they would be acquired by TIAA-CREF, so a minor concern has been added to Organization
- **PIMCO** – Chief Executive Officer stepping down and leaving the company, so a minor concern has been added to Organization

New Watch List

Watch List Criteria	MainStay Large Cap	Aston Montag & Caldwell	J Hancock Disciplined Mid Cap	PIMCO Total Return	ING Global Real Estate
<i>NUMBER OF QUARTERS ON THE WATCH LIST</i>	4	3	2	1	4
Changes in Ownership Structure or Material Litigation					
Investment Management Team Changes					
Significant Increase/Decrease in Assets Under Management					
Investment Style Stable/Consistent and Adherence to Investment Guidelines					
Performance In-Line with Expectations					

All shaded boxes indicate a FAIL in that criteria

- **Artisan** – both funds were added to the watch list last quarter, due to the significant increase in assets, but they were removed from the watch list this quarter
- **MainStay** – this is its 4th quarter on the watch list and a new fail was added for change in ownership structure. At this time, it is not recommended to replace this fund
- **PIMCO** – added to watch list, due to the loss of their CEO

3. Review Annual Asset Allocation Study

The committee reviewed the annual asset allocation study provided by Innovest. This provided an outlook on what the economy may be like in five years and what the projected returns might be at that time. Reviewing this annually is necessary to determine an asset allocation mix that will reduce risk and volatility, while maintaining a diversified portfolio. Innovest provided the current asset mix and three alternatives, which showed the expected return and standard deviation. The committee voted to change the asset allocation mix for the Conservative, Moderate and Aggressive portfolios.

Conservative	Moderate	Aggressive
<ul style="list-style-type: none"> • Mary motioned to use Mix 2 • Derek seconded the motion • None opposed 	<ul style="list-style-type: none"> • Mary motioned to use Mix 2 • Vicki seconded the motion • None opposed 	<ul style="list-style-type: none"> • Mary motioned to use Mix 3 • Don seconded the motion • None opposed

It was discussed that emerging economies are expected to drive growth over the next 20 years. The committee will need to search for an emerging market fund in the near future. The committee decided to do this through a phone call with Innovest.

4. Changes to the Custom Stable Value Fund Investment Policy Statement

Innovest had a few comments to the changes that Great West made to the Investment Policy Statement.

- Essentially the custom stable value fund has the ability to take a loan from the GW general account. Interest would be charged at a prime rate, plus a spread. Innovest indicated that they would prefer to see a stated spread.
- In the No Competing Funds section, it states that they equity wash period could be up to 180 days, but the typical period is 90 days. Lisa will look into this to provide more detail as to why 180 days is listed.
- Lastly, Innovest indicated that they would like to see more detail on the wrap insurance that is provided.

5. Great West Quarterly Update

First Quarter Update for 2014

Plans assets continue to increase and were at \$158,897,575 for the quarter. Scott indicated that this number is a little lower, because he did not include the loan assets as part of the total assets. The total number of participants is at 2,774. Even though there have been several retirements over the last 6 months, overall, more people are enrolling. The overall net cash flow was larger this quarter than any quarter last year, in spite of the fact that there were significant numbers of distributions. Payroll contributions were at \$2,800,252 for the quarter, with incoming rollovers at \$669,124.

There were 37 new loans issued this quarter and only one unforeseeable emergency withdrawal. A member asked about the loan requirements and it was explained that general purpose loans do not require a reason, as long as they are returned in no more than 5 years. As long as the participant has enough funds available and doesn't have several other loans, they can obtain a general purpose loan. These loans are paid back through employees paychecks, which keeps the default rate low.

NAGDCA Comparison

The 2013 NAGDCA study included 89 governmental 457 plans. Scott did not have the number of employees eligible to contribute to the City plan, so he was unable to compare the participation rate percentage to the NAGDCA percentage. Mesa's average participant account balance is \$55,722, whereas the average NAGDCA balance is \$47,000. Mesa's average participant annual contribution is now higher than the NAGDCA average at \$5,774. This may be misleading, because several people applied their vacation payout to their DC plan. Scott will compare these rates again next quarter.

Investment Advisory Services Usage

The plan offers three levels of investment services: Guidance, Advice and Managed Accounts. There was an increase in utilization for both the advice and managed accounts. Eight participants are now using the advice option and 387 are using managed accounts.

Local Education

Scott was available a total of 32 days in Mesa, with 27 of those days at Mesa City Plaza. There were 10 education seminars held for Water employees. It really helps the field crew when their supervisor, or someone in their work group, sets up these types of meetings. Scott also attended four new employee orientations this quarter. He indicated that he always tries to be available for these, because most people join the plan, while attending orientation.

Miscellaneous

Mary asked if GW has seen an increase in utilization of the website, now that changes have been made. Lisa does not believe the Retirement Income Control Panel has any statistics, but she will find out. It would be good to know if people are using it, or if it needs to be promoted again.

The NAGDCA conference will take place in San Antonio in September. It was suggested that committee members may want to attend. Mike expressed interest in going and asked committee members to let him know if they are interested in attending.

6. Upcoming Meetings

- Will schedule a phone call with Innovest to discuss adding an Emerging Market Fund
- Next quarterly meeting will take place on August 4, 2014

7. Meeting Adjourned at 1:10pm